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BUDGETARY AND FINANCE COMMITTEE
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Item 3 (c) of the agenda of the Budgetary
and Finance Committee

ADOPTION OF THE REPORT OF THE BUDGETARY AND FINANCE COMMITTEE TO THE GOVERNING COUNCIL

Draft report of the Budgetary and Finance Committee

Rapporteur: Ms. Heather DOWSETT (New Zealand)

CHAPTER III. Financial, budgetary and administrative matters

C. Audit reports and other matters

Audit reports

1. For its consideration of agenda item 3 (a), the Budgetary and Finance Committee had before it the report of the Administrator on audit reports contained in document DP/1992/41, covering the interim report of UNDP and also further information on follow-up action taken in response to Governing Council decision 91/47 and General Assembly resolution 46/183. It also had before it the financial reports and audited financial statements and reports of the Board of Auditors (A/46/5/Add.1) and the report of the Advisory Committee on Administrative and Budgetary Questions (A/46/510). It also considered documents DP/1992/42 and DP/ 992/42/Add.1, containing the audited financial statements of the executing agencies for the year ended 31 December 1990; reports of the external auditors thereon; and the comments of the Administrator on the audit reports of the executing agencies.

2. The Director, Division of Finance, made an introductory statement on the preparation and structure of document DP/1992/41. He noted that not all of the recommendations made by the auditors and the Advisory Committee on Administrative and Budgetary Questions (ACABQ) could be implemented by UNDP alone. In particular, the four items identified in the document under the subject of agency accountability required the input of the executing agencies before UNDP could respond.

3. These four items were discussed at a meeting of the Consultative Committee on Adminstrative Questions (Finance and Budget) CCAQ(FB) in March 1992 (see report of the meeting in document ACC/1992/11). UNDP will conclude a standard basic executive agency agreement with the World Health Organization (WHO) shortly and with the Internation Labour Organisation (ILO) and Food and Agriculture Organization (FAO) before the end of the year. Exchanges of letters between UNDP and the United Nations Conference on Trade and Development (UNCTAD) and Economic and Social Commission for Western Asia (ESCWA) are expected within the near future.

4. Several agencies confirmed that their auditors already carry out audits of a very comprehensive nature and that additional reports would involve extra costs. They were also reluctant to pursue the question of the routine provision of audit reports and management letters on agency activities to the external auditors of UNDP without a formal recommendation of the Panel of Auditors. The agencies also confirmed that in their opinion the accounting policy and reporting instructions covering unliquidated obligations were clear and that any deficiencies resulted from faulty application of those instructions.

5. The Director of Finance reported that field missions to eight countries to evaluate the Economists Programme in Africa would be completed in June 1992, with a consolidated report scheduled for completion by September 1992. The mission team was meeting with the external auditors to enable the auditors to communicate clearly their concerns.

6. With respect to comments on the office for Project Services (OPS), he provided additional information on the interim arrangements regarding the functions of the Division Chief and explained that Division Chiefs were in some cases acting as project management officers pending the recruitment of the latter following the recent restructuring. On the ex post facto signature of contracts, he indicated that there appeared to be a problem of definition about when a valid contract came into effect. The matter was being discussed with the external auditors.

Summary discussion of the Committee

7. Members commended the work of the auditors, noting the scope and comprehensive nature of the interim report. Members expressed their concern that WHO, ILO and FAO had not completed the standard basic executing agency agreement as requested by the auditors and the General Assembly. One member indicated that failure to complete the arrangement should disqualify an agency from executing UNDP-funded activities.

8. While members recognized the existing initatives by OPS, they sought additional clarification of the responses provided, particularly with regard to control over the acceptance of projects, programme planning and implementation. Some members were not convinced that the responses provided by OPS to the audit comments tackled all problems and considered that a more comprehensive approach was needed. Another member asked that a full report on the steps taken by OPS to implement the actions called for by the auditors be provided to the Governing Council at its fortieth session (1993).

9. Additional questions were asked by members on the Economists Programme in Africa; steps taken to deter fraud; the additional workload related to the establishment of new trust funds; the status of the preparation of common accounting standards; and the audit requirements for, and the audit frequency of, nationally executed projects. Members also sought assurances that the auditing requirements under the programme approach would ensure the efficiency and effectiveness of this modality.

Response of the Administration

10. The Director of Finance responded to the questions on OPS indicating that the workload of project management officers could be addressed only by a selective increase in staffing levels or by reducing the volume of activities. The latter would mean limiting the approval of projects. He further explained that the recent restructuring of OPS was intended to make the office more efficient and more responsive. He also outlined the systems development activities undertaken to enhance project management, including the development of three main systems: personnel; procurement; and budget monitoring. The first two are scheduled for completion in 1992 and the third in 1993.

11. The Director provided information on the status of the development of common accounting standards as reported at the March 1992 session of CCAQ(FB). The working party was meeting regularly, with the next meeting to be held in May,1992, in Rome.

12. The Director reviewed the steps taken to respond to the questions on fraud and the implementation of General Assembly resolutions 44/183 and 46/183. Ad hoc committees were being formed to review potential cases of fraud and assess personal financial responsibility. Steps had been taken to remind staff of their responsibilities and to ensure that staff members reporting an incident of fraud would be protected.

13. The Director reported that the Administrator believed existing arrangements provided sufficient funds to cover the incremental workload associated with the administration of trust funds. He cited the enhancements made to existing procedures and information systems to eliminate duplicate data entry. UNDP also intended to incorporate trust funds in the redesign of the programme and project management system, thereby further reducing workload.

14. Discussions with the external auditors had been held to attempt to establish the acceptable percentage audit of nationally executed projects. With such a change, UNDP could meet those audit requirements and thus remove one reason for the audit qualification of the UNDP accounts. Implementation of the programme approach would not change existing audit requirements nor would it detract from the auditor's ability to ensure compliance with UNDP's Financial Regulations and Rules.

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